

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 CAB-09 CIAE-00 COME-00 DODE-00

INR-10 NSAE-00 RSC-01 FAA-00 SS-15 NSC-10 L-03 RSR-01

/086 W

----- 086226

R 291612Z AUG 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7119

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION BERLIN

USMISSION NATO BRUSSELS

AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: ETRN, WB, GW

SUBJECT: CIVAIR - UK PITCH FOR IGS FARE HIKE, CAPACITY CUT

REF: (A) STATE 167362, (B) BERLIN 1489

1. EMBASSY AGREES ESSENTIALLY WITH BERLIN'S ANALYSIS OF BRITISH PROPOSAL FOR INCREASED IGS FARES. WE BELIEVE THE BRITISH SHOULD BE REQUIRED TO MAKE A TIGHT AND CONVINCING CASE TO THE ALLIES, AND PAN AM SHOULD BE FULLY IN AGREEMENT WITH THE PROPOSAL IF THE US IS TO SUPPORT IT VIS-A-VIS THE FRG.

2. THE IGS SITUATION AT THIS TIME IS DIFFERENT FROM 1970 AND 1971. NOT ONLY ARE THE CARRIERS FACING A DECLINING MARKET, BUT THEY (AND THE ALLIES) WILL FACE INCREASING PRESSURE FROM THE BERLIN SENAT AND, WE BELIEVE, THE FRG, TO MOVE ALL OR PART OF THE IGS OPERATIONS TO TEGEL AIRPORT. IT SEEMS TO US INEVITABLE, AS BERLIN INDICATES, THAT A PROPOSAL FOR A FARE INCREASE

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WILL GET MIXED WITH THE FINANCIAL ASPECTS OF THE MOVE

TO TEGEL AND THAT THE TWO ISSUES WILL HAVE TO BE LOOKED AT TOGETHER IN THE BERLIN CIVIL AIR TRANSPORT ADVISORY GROUP (BCATAG). THE FRG HAS REQUESTED THAT THE NEXT BCATAG MEETING, SCHEDULED FOR SEPTEMBER 19 IN BERLIN, CONCERN ITSELF CHIEFLY WITH THE TEGEL/TEMPELHOF PROBLEM. THE IGS CARRIERS AND THE BERLIN AIRPORT COMPANY HAVE BEEN STUDYING COSTS OF VARIOUS ALTERNATIVES AND THE EMBASSY WILL BE REPORTING FURTHER ON THESE COSTS. IN ANY EVENT, WE DO NOT SEE THAT IT WILL BE PRACTICAL IN THE NEXT FEW MONTHS TO CONSULT WITH THE GERMANS ON A PROPOSAL FOR A FARE INCREASE WITHOUT THE TEGEL/TEMPELHOF SITUATION BEING TAKEN INTO CONSIDERATION.

3. BEA AND PAN AM PROPOSED WINTER SCHEDULES FOR 1973-74, RECENTLY RECEIVED FOR APPROVAL BY CAA'S, REFLECT THE DECLINE IN PASSENGERS ON THE IGS. SERVICES FOR THE 1972-73 WINTER SEASON TOTALLED 94 ON THE NINE MAJOR ROUTES, BEA - 45 AND PAN AM - 49. FOR THE COMING SEASON, THE CARRIERS PROPOSE A TOTAL OF 82 SERVICES, BEA - 40 AND PAN AM - 42. WE BELIEVE, BUT STILL HAVE TO CONFIRM THAT THESE PROPOSALS MAY REPRESENT THE "FURTHER SYNCHRONIZED CAPACITY CUTS" TO WHICH ROGERS MADE REFERENCE (PARA 1, REFTEL A).

4. PAN AM PLANS TO OPERATE ITS PROPOSED WINTER SCHEDULE WITH A NINE AIRPLANE FLEET INSTEAD OF THE ELEVEN USED LAST WINTER. THIS CHANGE MESHES IN WITH PAN AM'S PLANS TO EXPAND INTO THE MEDITERRANEAN IT CHARTER MARKET (STATE 155539 AND PREVIOUS) AND THEIR INTEREST IN BERLIN/MOSCOW CHARTERS (BONN 12185).

5. EMBASSY HAS NO DOUBT THAT IGS OPERATIONS CONTINUE TO BE PROFITABLE FOR PAN AM. IN PAN AM'S LAST FINANCIAL PRESENTATION TO THE CAA (AUGUST 1972) PAN AM FORECAST OPERATING REVENUES OF \$74 MILLION AND A RELATED RETURN ON INVESTMENT OF 10.5 PERCENT FOR THE YEAR ENDING SEPTEMBER 30, 1973. IN AN INTERVIEW WITH FLIGHT MAGAZINE (JULY 26 ISSUE) PAN AM'S DIRECTOR FOR GERMANY RUNNETTE SAID THAT OPERATING REVENUES FOR THE YEAR 1972 WERE \$75 MILLION FOR THE IGS. REVENUES HAVE LIMITED OFFICIAL USE

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DECLINED SINCE THEN, AS RUNNETTE ALSO INDICATES, BUT COSTS AND FREQUENCIES HAVE BEEN REDUCED, AND WE BELIEVE THAT RETURN ON INVESTMENT HAS CONTINUED TO BE SATISFACTORY ALTHOUGH WE HAVE NO CURRENT FIGURES.
HILLENBRAND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 29 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BONN12379
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973089/aaaaagit.tel
Line Count: 112
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) STATE 167362, (B) BERLIN 1489
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 06 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Aug-2001 by kelleyw0>; APPROVED <14-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR - UK PITCH FOR IGS FARE HIKE, CAPACITY CUT
TAGS: ETRN, WB, GE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005